

Message Text

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ACTION EB-07

INFO OCT-01 ARA-06 ISO-00 AGR-05 SP-02 AID-05 NSC-05

RSC-01 CIEP-01 TRSE-00 SS-15 STR-01 OMB-01 CEA-01

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FM AMEMBASSY SAN JOSE

TO SECSTATE WASHDC 9212

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E.O. 11652: N/A

TAGS: ETRD, EAGR, CS

SUBJECT: 1975 MEAT IMPORT PROGRAM

REF: (A) SAN JOSE 392 (B) STATE 019319

1. ONLY GENERAL RESPONSE BY SPECIAL MEAT COMMISSION TO REASONS FOR INCREASE IN COSTA RICAN BEEF EXPORTS TO U.S. IN 1974 WAS GIVEN IN REFTEL (A). CATTLEMEN'S FEDERATION REP SAID THAT PREVIOUS INVESTMENTS HAVE RESULTED IN AN EXPANDING CATTLE POPULATION AND THUS THE COUNTRY HAS INCREASING QUANTITIES OF BEEF AVAILABLE FOR EXPORT. (65 PERCENT OF DOMESTIC PRODUCTION WAS EXPORTED IN 1974 VERSUS 60 PERCENT IN 1973). VICE MINISTER OF AGRICULTURE AND LIVESTOCK ADDED THAT NATIONAL HERD IS GROWING AT 5 PERCENT PER YEAR AND THAT THIS WILL ALLOW 15 PERCENT OF THE HERD TO BE SLAUGHTERED ANNUALLY WITH NO DETRIMENT TO HERD EXPANSION, BUT THAT IF EXPORTS ARE HELD TO PROPOSED VRS LEVEL, THE FINANCIAL CRISIS CREATED WOULD RESULT IN A COUNTRY-WIDE LIQUIDATION. AN EXAMPLE OF PAST INVESTMENTS MADE TO DEVELOP LIVESTOCK INDUSTRY ARE DATA FROM 1973 CENSUS WHICH SHOW 51 PERCENT OF FARM LAND IN PASTURES VERSUS 35 PERCENT IN 1963 ACCORDING TO COMMISSION.

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2. COMMENTS: IN ADDITION TO ABOVE-CITED REASONS FOR

GENERAL TREND OF INCREASING EXPORTS, THERE WERE SEVERAL OTHER FACTORS THAT RESULTED IN THE AMOUNT OF INCREASE THAT OCCURRED IN 1974 AND IS EXPECTED TO OCCUR IN 1975. THE COLON APPLICABLE FOR BEEF EXPORTS WAS DEVALUED IN APRIL OF 1974 AND AGAIN IN JANUARY OF 1975. THUS THE DECLINE IN THE PRICE OF BEEF TO LOCAL CATTLEMEN HAS BEEN LESS IN COLONES THAN IN DOLLARS. IN APRIL 1974 THE COLON WAS UNIFIED FROM COLONES 6.62 TO \$1.00 TO COLONES 8.54 TO \$1.00, AMOUNTING TO A DEVALUATION OF 29 PERCENT, BUT A 13 PERCENT EXPORT TAX WAS IMPOSED ON BEEF MAKING A NET DEVALUATION OF 12 PERCENT IN THE BEEF COLON. EFFECTIVE JANUARY 1, 1975, THE EXPORT TAX ON BEEF WAS REDUCED TO ONE PERCENT AMOUNTING TO A FURTHER DEVALUATION (OR COLON PRICE INCREASE) OF 14 PERCENT. ANOTHER FACTOR IN THE 1974 INCREASE WAS A CARRY-OVER OF FAT CATTLE FROM 1973 AS THE PACKING PLANTS WERE CLOSED IN LATE 1973 WHILE A NEW LAW REGULATING CATTLE SLAUGHTER WAS BEING DEBATED. ACCORDING TO MEAT COMMISSION, THERE WAS A FURTHER CARRY-OVER OF 7 MILLION POUNDS FROM 1974 INTO 1975. THIS 7 MILLION POUNDS RESULTED FROM THE CATTLEMEN AND PACKERS HOLDING MEAT AWAITING THE EXPORT TAX TO BE REDUCED ON JANUARY 1, 1975 AS THE REDUCTION HAD BEEN PREVIOUSLY ANNOUNCED. THE PACKERS AND CATTLEMEN'S ASSOCIATIONS WERE FULLY AWARE OF THE POTENTIAL CONSEQUENCES OF HOLDING THIS BEEF AND REPEATEDLY ASKED THE GOVERNMENT TO REDUCE THE EXPORT TAX PRIOR TO THE END OF 1974, BUT THE GOVERNMENT SAID THAT IT COULD NOT DUE TO BUDGETARY CONSIDERATIONS

3. THE EMBASSY HAS NO DOUBTS THAT COSTA RICA CAN CONTINUE TO INCREASE ITS CATTLE HERD AND EXPORTS OF BEEF IF EXPORT MARKETS CAN BE FOUND. LOCAL CONSUMPTION APPEARS TO BE SOMEWHAT INELASTIC AND ONLY WITH A MAJOR EFFORT, SUCH AS DIRECT GOVERNMENT PURCHASES UNDER THE "ASIGNACIONES FAMILIARES" (FAMILY SUBSIDY LAW) NUTRITION PROGRAM, DOES IT APPEAR THAT INCREASED CONSUMPTION COULD BE ENCOURAGED AMONG THE RURAL POOR. THE RATE OF GROWTH IN THE CATTLE INDUSTRY MAY BEGIN TO DECLINE AS LOW CATTLE PRICES VERSUS HIGH GRAIN AND SUGAR PRICES ARE ALREADY STIMULATING SOME SWITCHING OF LAND. NONETHELESS, THE INVESTMENTS FOR INCREASING THE LIVESTOCK INDUSTRY ARE ALREADY IN PLACE AND THERE ARE MANY AREAS OF THE COUNTRY THAT ARE NOT SUITED FOR ANYTHING BUT CATTLE.

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